STARTING AN ACTUARIAL CONSULTING OPERATION IN KENYA

By: Shiraz Jetha FSA, FCIA, MAAA

In June 2003, while I was employed as a Regional Life Manager and Actuary for a well-established composite insurer in Kenya, I happened to mention in a chance conversation with my now current boss, my interest in building an actuarial consulting business. This triggered a series of meetings and discussions ultimately culminating in my accepting the role of the head of the newly created Consulting and Actuarial Services Division for the Aon Consulting Unit of Aon Minet Insurance Brokers in Kenya.

So on October 1st, I walked into my new offices with a briefcase and some papers containing a mix of preliminary business plans, list of services that could be offered and target clients but zero revenues.

CONSULTING? IN KENYA?

So why did building an actuarial consulting operation in Kenya make sense?

First, to my knowledge, there are only 4 fully qualified actuaries, including myself, in Kenya. Of the other three, two are senior executives in a thriving consulting business here in Nairobi and one is the CEO of my former company.

Second, while there is interest from organisations outside Kenya in entering the market, there is only one dominant locally based consultancy in the country. There is therefore room for a second local player, especially as, even today, a significant amount of the actuarial work for Kenya is done from abroad – mainly South Africa.

Third, while the practice we intend to build will largely serve insurance companies and health care organizations, being part of the largest insurance broker in Kenya with a strong regional presence is reassuring.

Beyond these “business” reasons are the “other” reasons – which were equally relevant for me. My employer has given me a big vote of confidence along with its full support – its knowledge of the industry and its relationships with the key people in the sector. At the very least, I will gain an excellent knowledge of the insurer sector in Kenya as well as first hand knowledge of what it takes to build businesses and an external perspective. How can I lose?

DEMAND FOR ACTUARIAL SERVICES

So where does the demand come from? As in other countries, one source is from legislation. The two main bodies of legislation affecting life insurers and retirement plans both require actuarial certifications, with the actuary being defined as a “Fellow” of designated actuarial organizations (fellowship in Society of Actuaries qualifies for certification).

In Kenya there are some 40 organizations (life, p & c and reinsurers combined) serving a population of about 31 Million. As you can imagine most of the premium – around 70 – 75% is in the p & c coverages. However Life premiums are increasing as insurers play an important role in the tax-favored retirement business where both

personal pension plans and group deposit administration business are important. Life Insurance products are mostly participating with an emphasis on endowments ("money back" types) and educational savings policies. Disability coverages are restricted mostly to premium waiver.

Insurers have, in the past, shied away from health insurance. This was because when the health insurance was offered initially, it was as an accommodations for the employer client and managed this way, the product line never made any money. The vacuum was partially filled by organizations using the label of Health Management Companies. A few of these companies operate health service facilities such as clinics mainly. Several of these have since folded and a good portion of the others are experiencing operational difficulties. HMCs are not regulated in any sense. Capitalization levels were low and professional, technical and managerial expertise ever lower. The companies saw very high growth levels (annual mode premiums onto an increasing membership attracted by lower premiums) but with limited regulation of reserves and capital, it was just a matter of time before the house of cards came tumbling down. The outcry that has resulted as coverage disappeared, in many cases overnight, is gradually moving the oversight role of these organizations to the Commissioner of Insurance.

In summary, the shortage of professionals (which is perhaps just temporary since the profession is attracting committed students) together with the environment described generates the demand for services.

HIV/AIDS

This epidemic has caused significant damage - in terms not only of human misery but also of loss of significant portions of population in "economically" important age groups. Estimates are that the prevalence rate for the condition is around 15%.

In Kenya, the median age of the population is estimated at around 19 years (compared to US where it is 36 years). Similarly life expectancy at birth in Kenya is in the mid 40s while that in the US is in the high 70s. AIDs has had an important role in these demographics. There has been significant pressure on the drug companies to lower drug costs (anti-retroviral drugs) so that the therapy is more affordable. There is now hope that the ARV drugs prices will be reduced significantly.

Life Insurance has been difficult in this market. All applicants are currently tested on the individual side. Many even decline to apply for insurance if there is to be testing. Of those that do apply, informal results suggest that 1 out of 7 test HIV positive. Many companies allow only certain doctors to perform the tests since mis-stating of test outcomes continues to occur. Even with these controls, companies will still run into early AIDs death claims. On the group life side, free cover limits are allowed. Practices vary among companies as to whether AIDs is excluded or not for claims under the free cover limit.

Life Insurers have been less than willing participators in the search for creative solutions on the issue of insurance and HIV despite consistent governmental pressure not to "discriminate" on account of the condition for insurance. A new comprehensive HIV and AIDs Prevention and Control bill is up before the legislature and it seems that this time there is a will to get it passed. The specific provisions for insurers are vague; insurers will be required to offer a "reasonable" amount of cover for which no disclosure of the applicant's HIV/AIDs status need be given.

The increased knowledge about HIV / AIDs, particularly in the context of improved mortality through drug therapy, does offer hope that underwriting and rating terms can be improved for applicants who are HIV + positive.

CHALLENGES IN BUILDING THE BUSINESS

As I looked at Barbara Lautzenheiser's 10 Tips from the previous newsletter ("The Independent Consultant, Issue 2, August 2003), they all apply to my situation here in Kenya – perhaps in different degrees (as I am not *totally* independent) but all were right on. I am still on the hook to make the consulting business work for my employer; if it does not, I will have to look for something else.

As with any Independent Consultant, there is tremendous pressure to find clients and "fill the order book". As "the new" division, there is a lot of scrutiny, and the "eyes" of the organization are on you. So even if there may be more patience from the decision-makers, in reality you have less time than you think you have.

Other challenges? Closely tied to the first is learning the art of effective communication; this is especially important with new clients involving first time interactions and involves the ability to pry-out the pertinent questions and concerns from a meeting and respond directly to it. To do this correctly, taking charge of the meeting and the proper use of the "questioning technique" is crucial. Doing this right will go a long way to improving the clients comfort with you. -This is something which I have had no training in but something that I will have to get very good at fast.

What else? I will also need to become an expert in Kenya's Insurance and Retirement legislations. Part of this challenge occurs because as a consultant, you are supposed to have all the answers - and off the cuff too – even if these are ~~are~~ outside the "actuarial and financial " parts of the legislation. So I will need to know for example things like the minimum number of trustees required by law for a pension plan or what the proper procedure is in the case of lost policy documents.

Determining the billing rate and understanding what the avenues one might have to go lower if needed has also been an interesting exercise. This is more applicable in Kenya where actuarial consulting is relatively new. The rate is predicated on salary scale for actuarial professionals. But because of the infancy of the profession in Kenya, creating a scale can itself be tricky. Smell-testing your own proposed rates with rates charged by other professionals – e.g. accounting and legal – can help in validating your rates. I think I may have already made my first mistake in quoting a rate on a work proposal!

~~What else?~~Others? The perennial "chicken or egg" problem! When should you start to staff-up compared to the state of the order book? And if the answer is "not ahead of it", then what is Plan B in case clients come knocking on your door? Another challenge for me is to build up my tool-box. A good actuarial software (and possibly a "charging/billing system") can probably make my life easier. But the name brands are sophisticated and hence expensive compared to the size and needs of my clients' business. I think I will be spending a lot of time trying to improve my expertise level in spreadsheets from about a 3 (where a 1 is no proficiency and 10 full proficiency) to a 6 or 7.

And not the least of all – all the little things that can make a difference in perception. Designing business cards and stationery. Writing marketing literature and introductory letters. Doing presentations, etc. Things that help build your image

(number 7 on Barbara's list). Interestingly, it's the absence of professional workmanship that gets noticed and not its presence!

THE ROAD AHEAD

Of real importance to this "journey into consulting" is knowing what the organization's strengths are and who its potential clientele is. Staying focused on developing the clientele and delivering the services in a cost-effective way while adding value to their business will ensure success. This is universal, and not unique, to the Kenyan market.

All start-ups need a little luck also and I hope there is some somewhere to help me as I get going.

Biographical Note: Shiraz Jetha was born and educated in Tanzania; he emigrated to Canada (after spending almost 10 years in UK) where he qualified as a fellow of the Society of Actuaries and the Canadian Institute of Actuaries in 1984 while with Aetna Canada. He subsequently moved to the United States, where he worked for the Principal Financial Group for 15 years before accepting a position at the Jubilee Insurance Company Ltd in Nairobi. Shiraz is a citizen of Canada and US and lives in Nairobi, Kenya with his wife Nimira and son Qayam. He says he probably has a couple of moves, at least, to new countries left before he settles down.

We wish Shiraz luck, and will check in with him from time-to-time to hear how his practice develops in Kenya.